



Iowa General Assembly

2005 Committee Briefings

Legislative Services Agency – Legal Services Division

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PUBLIC RETIREMENT SYSTEMS COMMITTEE

Meeting Dates: [December 21, 2005](#) | [November 2-3, 2005](#)

Purpose. This compilation of briefings on legislative interim committee meetings and other meetings and topics of interest to the Iowa General Assembly, written by the Legal Services Division staff of the nonpartisan Legislative Services Agency, describes committee activities or topics. The briefings were originally distributed in the Iowa Legislative Interim Calendar and Briefing. Official minutes, reports, and other detailed information concerning the committee or topic addressed by a briefing can be obtained from the committee's Internet page listed above, from the Iowa General Assembly's Internet page at <http://www.legis.state.ia.us>, or from the agency connected with the meeting or topic described.

PUBLIC RETIREMENT SYSTEMS COMMITTEE

December 21, 2005

Co-chairperson: Senator Mark Ziemann

Co-chairperson: Representative Jeff Elgin

Recommendations: The Public Retirement Systems Committee made the following recommendations:

1. House File 729, introduced during the 2005 Legislative Session and passed by the House concerning the Iowa Public Employees' Retirement System (IPERS) and the Judicial Retirement System, should be rereferred to the Senate State Government Committee for consideration of passage.
2. The House State Government Committee should consider the technical changes recommended by IPERS and the Municipal Fire and Police Retirement System (MFPRSI) and a defined contribution option plan for IPERS members. The Senate State Government Committee should consider all other proposals presented during the 2005 Legislative Session or discussed during this Committee's meetings in November.
3. The House and Senate Appropriations committees should consider using the one-time money available from the refinancing of Iowa's tobacco settlement bonds for repaying the state's obligation to the Judicial Retirement System, MFPRSI, and the Peace Officer's Retirement System.

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PUBLIC RETIREMENT SYSTEMS COMMITTEE

November 2-3, 2005

Co-chairperson: Senator Mark Ziemann

Co-chairperson: Representative Jeff Elgin

Overview. The Public Retirement Systems Committee received testimony from various organizations and individuals concerned with public retirement, including individuals involved with management of the various public retirement systems in the state. The Committee elected Senator Mark Ziemann and Representative Jeff Elgin Co-chairpersons. This briefing includes a summary of the proposals and recommendations made by various presenters to the Committee.

Several presenters discussed H.F. 729, which deals with issues concerning the Iowa Public Employees' Retirement System and the Judicial Retirement System. The bill passed the House and is currently pending in the Senate.

JUDICIAL RETIREMENT SYSTEM

Overview. Mr. David Boyd, State Court Administrator, summarized the recent results from the actuarial update and indicated that as of July 1, 2005, the funded ratio of assets to liabilities of the system is now 77 percent. The failure of the state to contribute the statutorily required rate of 23.7 percent of covered payroll since fiscal year 2001-2002 has resulted in approximately \$13 million of underfunding to the retirement system.

Iowa Judges Association. The Iowa Judges Association recommended that the provisions of H.F. 729 concerning judicial retirement be passed. Those provisions would, in part, increase the percentage multiplier for each year of service up to a maximum of 20 years of service from 3 percent to 3.5 percent.

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS)

IPERS Staff. Ms. Donna Mueller, Chief Executive Officer, and Ms. Pat Beckham, Consulting Actuary, addressed the Committee. For the fiscal year ending June 30, 2005, the fund earned an 11.25 percent return, ranking in the top quartile for similar pension funds. However, the funded ratio of assets to liabilities was 88.7 percent and investment returns are unlikely to improve the funded status of the fund. IPERS recommends that increased contributions, such as provided in H.F. 729, are necessary to adequately fund the system. Inaction on raising contribution rates will only increase the cost of solving the problem in the future.

IPERS Investment Board. Mr. David Creighton, CEO of The Bryton Companies in West Des Moines and member of the Investment Board, addressed the Committee. Investment policy cannot solve IPERS funding system and increased contributions are needed. No prudent asset allocation will provide the long-term funding needed for IPERS without an increase in contributions.

IPERS Benefit Advisory Committee (BAC). BAC recommends the following:

- House File 729 should be passed. The bill would provide for an increase in the total contribution rate of .05 percent per year for a maximum of eight years and maintain the 60/40 sharing split between employer and employee contribution rates.
- Maintain the current benefit structure for current members and new hires.
- Eventually, allow IPERS to adjust contribution rates (up or down) in the future if the actuary signals the need for such a change.
- Establish an independent board of trustees for IPERS.

Iowa Association of School Boards. The association recommends that absent additional state funding, contributions to IPERS should be shared equally by the employer and the employee.

Iowa League of Cities. The league recommends that the actuarial soundness of the system be strengthened in a way that fairly allocates the contribution rates between employer and employee.

IPERS Improvement Association. The association supports the following:

- No increase in benefits for the general membership of IPERS.
- Take necessary action to protect the IPERS retirement fund. House File 729 should be passed.
- Opposes privatizing IPERS and converting it into a defined contribution plan.

Miscellaneous IPERS proposals:

- Replace the current rule of 88 with the rule of 92 in determining eligibility for retirement. Reintroduce a mechanism to reduce the retirement formula for more highly compensated members of IPERS.
- Allow a credit against the full actuarial cost of a buyback of service by a member under IPERS reflective of the amount previously contributed to the system by that member and not refunded to the member.

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA (MFPRSI)

MFPRSI Staff. Mr. Dennis Jacobs, MFPRSI Executive Director, and Mr. Donn Jones, Consulting Actuary, provided background information concerning the retirement system. Mr. Jacobs reviewed several issues facing the system, including the additional financial stresses on the system due, largely, to recent investment performance. Mr. Jacobs noted that the fund returned 12.2 percent last fiscal year. Based on the most recent actuarial valuation of the system for the fiscal year ending June 30, 2005, the funded status of the system is 92 percent. In addition, based on this valuation and the current state appropriation to the system, the required contribution rate from cities beginning FY 2006-2007 will be 27.75 percent, down from 28.21 percent for FY 2005-2006. Mr. Jacobs noted that the state contribution to the system has been frozen for several years and that the cumulative shortfall is approximately \$30 million. If the state paid the promised percentage, the city contribution rate would be reduced by 2.39 percentage points.

Iowa League of Cities. The league recommends the following legislative changes:

- Establish a reasonable split of the required contribution rate between members and cities. Remove the 17 percent floor on city contributions. Cap the cities' contribution rate.
- Oppose any expansion of benefits such as establishing a DROP (deferred retirement option program) or including certain overtime in earnable compensation.

- Maintain the state's commitment to providing a portion of the cost of benefits provided under the system.
- Clarify that the presumption that heart and lung disease is job-related in establishing an accidental disability benefit is rebuttable.
- Eliminate the interest charged on newly discovered liabilities of cities arising out of the transition to the merged system in 1992.

Iowa Professional Firefighters. The association recommends the following:

- Maintain the current mechanism for establishing contribution amounts by employers and employees.
- Establish, when funding is available, a maximum pension of 90 percent of final average pay.
- Establish a no-cost deferred retirement option plan (DROP) for members.
- Prevent cities from charging the cost of on-the-job injuries to the member's health insurance.

Iowa State Police Association. The association recommends the following:

- Establish, when funding is available, a maximum pension of 90 percent of final average pay.
- Maintain current contribution amounts and formula.
- Establish a fiscally responsible DROP program.
- Include overtime in a member's earnable compensation for purposes of calculating retirement benefits.

PEACE OFFICERS' RETIREMENT SYSTEM (PORS)

PORS Staff. Mr. David Heuton, PORS Director of Administrative Services, indicated that recent investment losses, a reduction in active members in the system due to recent budget constraints, and the payment of the minimum specified contribution level have placed significant financial stress on the system. Mr. Heuton did note that additional troopers are now being hired. Based upon the most recent actuarial evaluation of the system, the total contribution rate should be 45.09 percent, or 18.74 percent greater than the minimum required rate from the members and the state. The funded percentage of assets to liabilities of the system is 89.6 percent. Mr. Heuton then addressed the Committee concerning possible options in granting certain members of the system service credit under PORS for prior public safety employment.

Portability Issue - MFPRSI System. Several current members of PORS were previously covered under MFPRSI and left that employment, without receiving a refund, when they joined PORS. These members seek passage of a modified version of H.F. 592 which would grant these members service time under PORS for this prior MFPRSI service. The modified request would provide that the cost of granting this service credit be provided by a state appropriation of around \$1.8 million.

Iowa State Troopers Association. The association recommends the following:

- Do not increase the employee contribution rate.
- Provide an option for members of PORS who did not receive years of credit service for time served in positions transferred from IPERS to PORS to purchase these years of service at an actuarial cost.

Iowa State Patrol Supervisors Association. The association makes no recommendation concerning any benefit enhancements without any further actuarial analysis and supports the Iowa State Troopers Association position.

Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) Presentation. Defined contribution (DC) retirement plans have several advantages over traditional defined benefit plans. DC plans are always fully funded and provide enhanced portability and investment involvement to members. If a DC plan is established, the plan should provide for a minimum total contribution rate of 12 percent; investment choice without inclusion of any speculative fund; distribution options; and adequate education, guidance, and advice. The DC option model has worked well for higher education, including eligible Board of Regents and community college employees in Iowa.

Next Meeting. The next meeting is Wednesday, December 21, 2005, at 10:00 a.m., in Room 116 of the State Capitol to discuss various proposals concerning public retirement issues.

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